

Message Text

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PAGE 01 JIDDA 05080 220504Z

13
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P 211515Z JUL 76
FM AMEMBASSY JIDDA
TO SECSTATE WASHDC PRIORITY 5373
INFO AMCONSUL DHAHRAN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME PRIORITY
FAA BRUSSELS

C O N F I D E N T I A L JIDDA 5080

DEPARTMENT PASS COMMERCE FOR COHEN, HALE, MYERS; EXIMBANK
FOR MORAN AND HAMMOND; FAA FOR CARY AND CARMICHAEL.

ROME FOR RCAA DWOR

FROM RCAA DWOR

E.O. 11652: GDS
TAGS: EAIR, BEXP, EFIN, ETRD, SA
SUBJECT: SAUDIA FLEET EXPANSION AND LINES OF DEVELOPMENT

REF: (A) ROME 11267, (B) JIDDA 4860, (C) ROME 10016
(D) ROME 8397, (E) ROME A-58 (2/10/76)

SUMMARY: SAUDIA BOARD MEETING SCHEDULED FOR JULY 20
(REFTEL B) POSTPONED TO JULY 27 TAIF TO PRIMARILY CONSIDER
FLEET REEQUIPMENT. DESPITE AGONIZING REAPPRAISAL TRIGGERED
BY MINISTRY OF FINANCE AND SAMA (SAUDI ARABIAN MONETARY
AGENCY), EXPECTATION BOARD WILL AUTHORIZE AIRLINE TO
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PAGE 02 JIDDA 05080 220504Z

FINANLIZE ORDER FOR TWO BOEING 747-268F'S, FOUR BOEING

707-368'S, THREE BOEING ADVANCED 737-268'S, AND PROBABLY ONE BOEING 747SP VIP WITH TOTAL VALUE APPROXIMATELY \$280 MILLION (REFTEL C). ADDITIONALLY, BOARD WILL PROBABLY AUTHORIZE REORDER NINTH LOCKHEED-CALIFORNIA L-1011-200 TRISTAR, VALUED AT \$35 MILLION, WHICH WAS ORIGINALLY ORDERED ALONG WITH TWO OTHER TRISTARS IN MAY (REFTEL D) BUT, DUE AIRLINE CONFUSION, PROVISIONALLY CANCELLED. SAUDIA TRAFFIC BOOMING AND RUNNING WAY AHEAD OF FORECASTS (REFTEL E, PAGE 11).

2. RCAA DWOR AND EMBASSY COMMERCIAL COUNSELOR EBLAN PAID SERIES OF CALLS OF KEY SAUDIA OFFICIALS JULY 20 AND 21, IN ANTICIPATION EARLY AIRLINE BOARD OF DIRECTORS' APPROVAL ACQUISITION PACKAGE TEN NEW BOEING AND ONE LOCKHEED AIRCRAFT TOTALLING \$315 MILLION. BOARD MEETING SCHEDULED FOR JULY 20 TAIF DELAYED UNTIL JULY 28 TO GIVE SAUDIA MANAGEMENT TIME TO REBUT OBJECTIONS TO PACE OF FLEET EXPANSION POSED BY SAUDIA DIRECTOR AND SAG MINISTER OF FINANCE ABA AL-KHAYL. APPARENTLY U.S. ADVISORS TO SAMA AND MINISTRY OF FINANCE BELIEVED PACE OF REEQUIPMENT SO RAPID AS TO FURTHER AGGRAVATE SEVERE INFRASTRUCTURE (HOUSING, SCHOOLING, ETC) PERSONNEL PROBLEMS RELATED TO SUPPORT OF ADDITIONAL FLIGHT, CABIN, AND GROUND STAFF. ADVISORS REPORTEDLY RECOMMENDED SAG RESPOND TO RAPID TRAFFIC GROWTH BY DESIGNATING RIYADH A SECOND MAJOR INTERNATIONAL AIR GATEWAY, AND OFFER VASTLY EXPANDED TRAFFIC RIGHTS TO FOREIGN-FLAGS AIRLINES. SAUDIA MANAGEMENT, HOWEVER, PREPARING REPLY TO BOARD THAT RIYADH TERMINAL HOPELESSLY SATURATED AND INCAPABLE HANDLING ANY SIGNIFICANT NEW TRAFFIC UNTIL 1980, WHEN NEW TERMINAL IS COMMISSIONED. FURTHER, AIRLINE WILL INDICATE TO BOARD THAT IT IS COMPLETELY CAPABLE OF SOLVING ANY INFRASTRUCTURE PROBLEMS RELEATED TO EXPANDED EMPLOYEE ROLLS.

3. IN THIS REGARD, WE ANTICIPATE SAUDIA MANAGEMENT VIEWS WILL PREVAIL AND AIRLINE BOARD ON JULY 27 WILL APPROVE AIRLINE SIGNING DEFINITIVE SALE CONTRACTS FOR FOLLOWING:
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PAGE 03 JIDDA 05080 220504Z

A. TWO BOEING 747-268F FREIGHTERS, ESTIMATED VALUE \$100 MILLION. DELIVERIES FALL 1977 AND SPRING 1978 (REFTEL C).

B. THREE BOEING ADVANCED 737-268 TWINJETS. ESTIMATED VALUE \$29 MILLION. DELIVERIES MAY, JUNE 1977, EARLY 1978, BUILDING TWINJET FLEET TO 17 AIRCRAFT

(REFTEL C).

C. FOUR BOEING 707-368C'S. ESTIMATED VALUE \$76 MILLION. DELIVERIES MAY, JUNE 1977, EARLY 1978, BUILDING 707-368C FLEET TO TEN AIRCRAFT (INCLUDING ONE VIP 707-368C FOR KING KHALED) (REFTEL C).

D. ONE VIP BOEING 747SP. ESTIMATED VALUE \$75 MILLION. EARMARKED FOR KING KHALED. BOARD APPROVAL PRO FORMA.

E. ONE LOCKHEED-CALIFORNIA L-1011-200 TRISTAR. ESTIMATED VALUE \$35 MILLION. DELIVERY MARCH 1978, BUILDING TRISTAR FLEET TO NINE AIRCRAFT. THIS AIRCRAFT ORIGINALLY ORDERED IN MAY ALONG WITH TWO OTHERS (REFTEL D), BUT WAS APPARENTLY AND INADVERTENTLY CANCELLED LATE JUNE DUE MANAGEMENT CONFUSION.

4. AIRLINE SENIOR MANAGEMENT INDICATES SOURCE SELECTION OF ENGINES FOR BOEING 747-268F/SP FLEET HAS BEEN MADE FOR SUBMITTAL TO BOARD OF DIRECTORS. ROLLS-ROYCE HAS OFFERED RB.211-524B AT INITIAL TAKE-OFF THRUST OF 51,000 POUNDS GROWING TO 53,000 POUNDS (RB.211-524D) BY 1980. GENERAL ELECTRIC HAS OFFERED CF6-50E AT INITIAL TAKE OFF THRUST 52,500 POUNDS GROWING LATER TO 53,000 POUNDS (CF6-50L). PRATT & WHITNEY HAS OFFERED JT9D-70A AT INITIAL TAKE-OFF THRUST OF 53,000 POUNDS AND, ALTERNATIVELY, JT9D-7FW AT INITIAL TAKE-OFF THRUST (WET) 50,000 POUNDS. ROLLS-ROYCE MAY HAVE INSIDE TRACK DUE ENGINE COMMONALITY ADVANTAGES (SAUDIA TRISTAR FLEET POWERED BY RB.211-22B'S AND DUE FOR UPGRADING TO RB.211-524'S NEXT YEAR).

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PAGE 04 JIDDA 05080 220504Z

5. SAUDIA TRAFFIC IS RUNNING WELL AHEAD OF BUDGET FORECAST, MAKING RAPID FLEET EXPANSION MANDATORY. FOLLOWING IS SYSTEM SUMMARY OF SCHEDULED TRAFFIC INCREASES, FIRST FIVE MONTHS 1976 VERSUS 1975:

REVENUE PASSENGERS PLUS 82 PERCENT (FORECAST PLUS 44.4 PERCENT) (REFAIR E).

REVENUE PASSENGER KILOMETERS PLUS 72 PERCENT; AVAILABLE SEAT KILOMETERS PLUS 42 PERCENT.

LOAD FACTOR PLUS 13 POINTS (1976 - 73 PERCENT; 1975 - 60 PERCENT).

6. ALONG WITH SATURATED DOMESTIC TRUNK (PARTICULARLY

JIDDA-RIYADH) AND REGIONAL SERVICES, SAUDIA FLIGHTS TO EUROPE COMPLETELY BOOKED THROUGH AUGUST 1976, EMPHASIZING TO AIRLINE THAT FLEET EXPANSION HAS NOT MOVED WITH SUFFICIENT RAPIDITY TO MEET GROWING TRAFFIC REQUIREMENTS OF THE KINGDOM.

7. AIRLINE REGISTERED PROFIT 1975, WITH SPECIFIC RESULTS TO BE PUBLISHED IN ANNUAL REPORT SHORTLY, DESPITE MASSIVE HOUSING EXPENSES COVERING FLIGHT AND GROUND PERSONNEL JIDDA. FINANCIAL FORECAST FOR 1976 CLOUDED BY ANTICIPATED \$100 MILLION HOUSING EXPENSES, CRIMPING AIRLINE'S CASH FLOW SEVERELY DESPITE BUOYANT REVENUES.
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